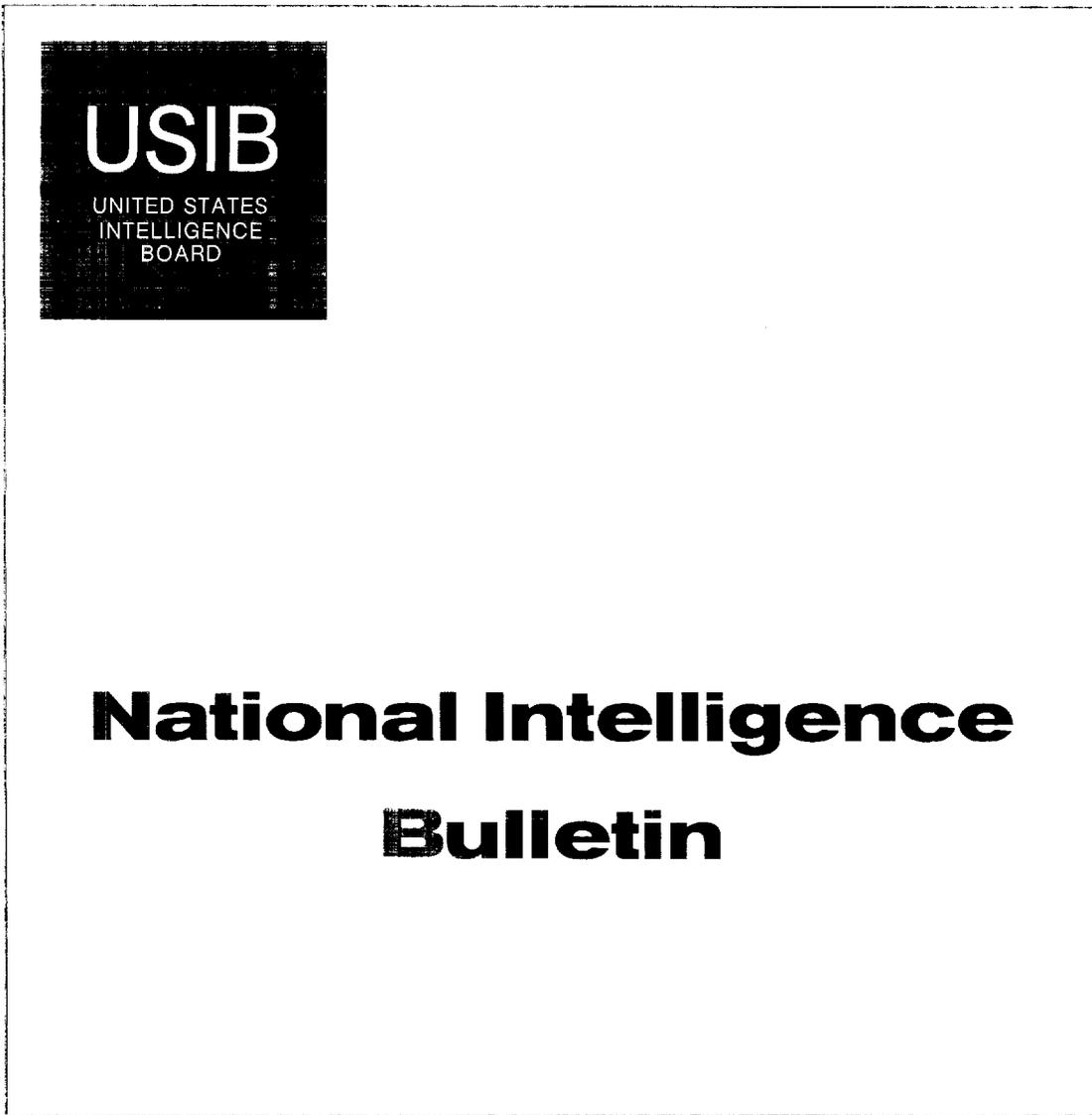
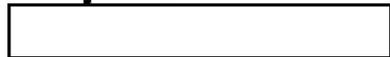


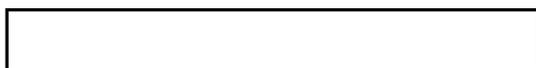
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State Dept. review completed

DIA review(s) completed.



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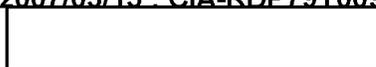
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USSR-US

Georgy Arbatov's long article in *Pravda* last week has been touted privately by several Soviets as a very important statement. The full text of the article is now available and is noteworthy for its concern about political trends in the US. It reiterates Moscow's commitment to greater cooperation, especially in the area of arms control, while blaming Washington for current bilateral difficulties, and is specifically critical of the Ford administration.

In discussing the article with US embassy contacts, some of Arbatov's colleagues, unlike Arbatov himself, have privately acknowledged the serious damage Angola has inflicted on US-Soviet relations. These same sources have nevertheless called attention to the "positive" tone of Arbatov's article and the significance of its appearance in *Pravda*, contrasting it with the attitude of "some" in Moscow who are less sanguine about current trends than Arbatov and these sources.

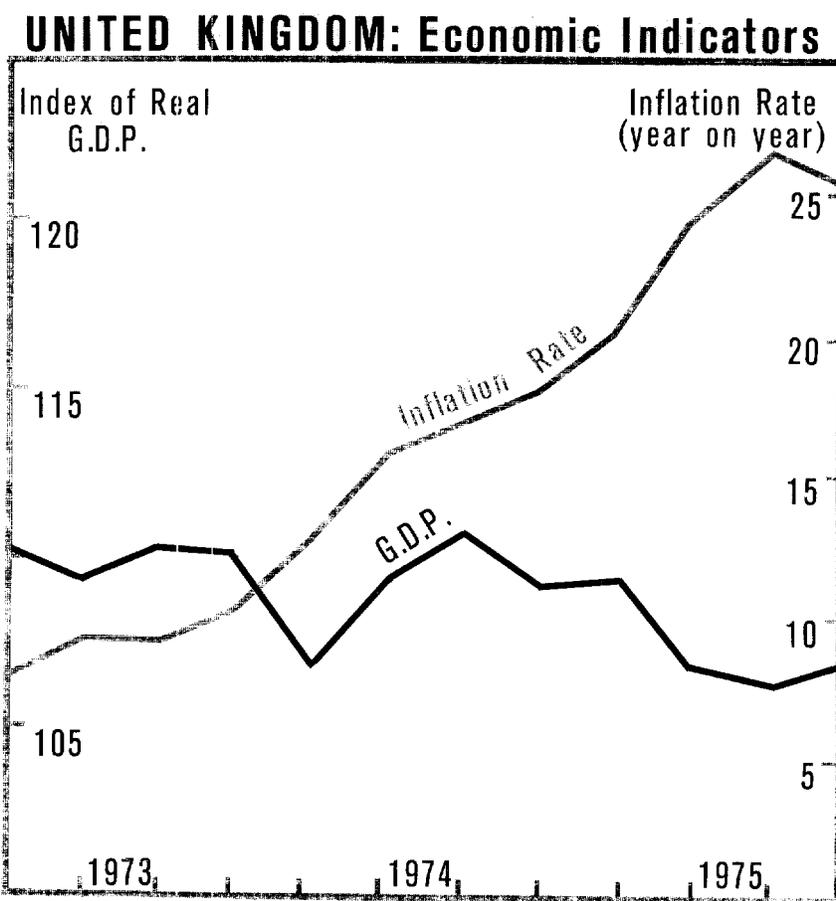
Arbatov's analysis of the recent course of US-Soviet relations is familiar fare: The ideological struggle between the two nations must and will continue, but much has been done to lessen the threat of nuclear war. Arbatov credits a changing correlation of world forces with prompting favorable changes in US foreign policy. He notes signs of backsliding in Washington, however, under the pressures generated by US economic and political problems and the realities of the US presidential campaign. In undisguised criticism of President Ford, Arbatov attacks the concept of "peace through strength" as reminiscent of cold war attitudes. He warns that concessions made during a political campaign may persist beyond the elections, "sometimes creating serious difficulties."

Arbatov analyzes recent US foreign policy setbacks (he mentions Southeast Asia, Portugal, "miscalculations in the eastern Mediterranean," and Angola) as being the result of wrong-headed policies in Washington, rather than of any communist intrigues. Referring to the inevitability of occasional reverses for both superpowers, he argues that "detente" must not be made a scapegoat. He said that for its part, Moscow never expected the path to be easy, but is determined to press ahead.

Finally, Arbatov concludes his analysis by noting that current problems between the US and the USSR should not jeopardize the gains made in arms control. His message seems to be that progress can still be made despite other setbacks to the relationship. His stress on the continued need for arms control probably reflects genuine Soviet concern about strategic stability in a period of deteriorating relations and prolonged stalemate at SALT.

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UK

Chancellor of the Exchequer Denis Healey, the only cabinet minister from Wilson's government that Prime Minister Callaghan has asked to stay on, yesterday announced a mildly reflationary budget that reaffirms the government's commitment to reducing inflation through the social contract.

The budget, which entails a \$22-billion deficit in the fiscal year running through March 1977, calls for selective tax cuts if the trade unions accept tougher wage controls.

Included in Healey's tax package are unconditional tax relief measures—aimed largely at the elderly, children, and widows—as well as a few minor investment aids. Revenue losses from the tax cuts will be partly offset by higher excise taxes on alcohol, cigarettes, and gasoline. Personal income growth from an expanding economy is expected to provide a higher base to tax, increasing the overall revenue take.

The largest part of the tax relief, however, is contingent on labor's acceptance of an annual limit on wage increases of about 3-percent. The Chancellor is expected to have a hard time selling this to the unions. He may have to accept a higher pay limit with less tax relief. Under current guidelines, wage increases have averaged 10 percent.

In addition, Healey has scheduled a 13-percent increase in government spending in the fiscal year ending in March 1977. The projected increase is down sharply from the 29-percent rise registered last year; in real terms, it represents almost no change.

Fulfilling his side of the government's agreement with the unions, Healey plans to increase the temporary employment subsidy from \$18.50 to \$37.00 per week. Pensions are also to be increased, at a budget cost of \$740 million.

Healey emphasized that economic recovery must be based on the expansion of exports and import substitution rather than on massive government spending. He ruled out the prolonged use of import controls as a means of solving Britain's problems, but indicated the government might use selective controls.

Reaction to Healey's budget speech was mixed. Len Murray, general secretary of the Trades Union Congress, objected to a 3-percent pay limit on the grounds that it is inflexible and does not take pay differentials into account. Margaret Thatcher, head of the Conservative Party, objected to the conditional nature of the tax cuts and to the large role that the unions play in deciding on tax cuts that affect the majority.

The Confederation of British Industry and the London stock market reacted positively to Healey's proposals.

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ITALY

The Italian Socialist Party is maneuvering to bring down Prime Minister Moro's Christian Democratic minority government. The Socialists are demanding either an early parliamentary election or the replacement of Moro by an emergency government that would involve a limited but formal role for the Communists in national policy-making.

The clash in parliament last week over legalized abortion provided the catalyst for the Socialist initiative. The Socialists had been trying to introduce abortion upon demand within the first 90 days of pregnancy. The Christian Democrats, however, joined neo-fascist parliamentarians to pass narrowly an amendment that would permit abortion only in a limited number of circumstances.

The Socialists were infuriated not only by the substance of the amendment but by the Christian Democrats' tactic of using neo-fascist votes to win their point. Despite the neo-fascists' position as Italy's fourth largest party, they are normally viewed as political pariahs by all of the other parties. The pivotal role that the Christian Democrats allowed the neo-fascists to play in the abortion vote undoubtedly strengthened the Socialists' conviction that they get nothing in return for their support of the Moro government.

Parliamentary debate on abortion has been suspended until next week. The Christian Democrats are trying to patch things up, but the Socialists are in no mood to compromise.

A meeting of the Socialist directorate yesterday revealed strong sentiment in favor of either an early parliamentary election or an emergency government open to some kind of Communist involvement. The directorate gave Socialist chief De Martino a mandate to consult with major political and labor leaders to solicit their views on how to deal with a broad range of problems facing the country.

The Socialist tactic is seemingly designed to demonstrate that Moro's minority government is too weak to shape a consensus on economic and other policies. By consulting others, the Socialists are trying to spread the blame in the event the government does collapse.

De Martino said after meeting last night with Prime Minister Moro and Christian Democratic leader Zaccagnini that the Socialists and Christian Democrats remain far apart on the abortion question but that further attempts would be made to reach an agreement. De Martino is scheduled to meet today with Communist chief Berlinguer. [redacted]

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SPAIN

Interior Minister Fraga remains optimistic about prospects for the government's liberalization program despite strong challenges from both left and right.

Fraga told Ambassador Stabler on April 5 that the reforms would not be derailed by the formation of an opposition front. He affirmed that there was no serious friction within the cabinet and specifically denied a divergence of views between himself and Foreign Minister Areilza. Areilza was rumored last week to have threatened resignation over the arrests of some Communist members of the opposition front.

The interior minister also claimed that Prime Minister Arias—though concerned about the effect of liberalization on the right—had accepted the government's program and would defend it. Arias' minor role in recent weeks has been due in part to poor health, Fraga said, but the Prime Minister would soon address the nation on television to outline the government's accomplishments and objectives. He would also personally defend the key law on political associations in an appearance before a parliamentary committee.

Fraga seemed confident that parliament would act without delay on the various reform measures already submitted by the cabinet. He did not say when he expected the bills to be passed, but the process could take one or two months. The interior minister was instrumental in formulating the government's reform program and may be overly optimistic about its prospects.

The government has recently run into stiff conservative opposition to its plan to move quickly on labor reform in hopes of heading off opposition attempts to stir up labor unrest this month that would culminate in massive demonstrations on May 1.

Far rightists entrenched in the leadership of the Spanish Syndical Organization showed their muscle recently by electing a staunchly conservative falangist to fill a vacancy on the Council of the Realm instead of selecting the new reform-minded secretary general of the syndicates as tradition dictated. This was followed by sharp criticism of the minister for the syndicates for proposing reforms in line with recent worker demands and a blunt warning to him that reforms cannot be imposed from above by appointed government officials.

The government has apparently backed down on its plan for early action and now will reportedly concentrate on the syndical congress, which will probably be held in July. The congress will be bigger and more representative than ever before, and the government, armed by then with the results of a survey of grass-roots syndical opinion, hopes to be able to ram its reforms through the congress.

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USSR-EGYPT

The Soviets continue to play down the significance of Cairo's abrogation of the Soviet-Egyptian friendship treaty in discussions with Western officials.

Y. D. Pyrlin, a Soviet Foreign Ministry official responsible for Middle East matters, recently told a British official that the abrogation only formalized an existing situation.

The Soviet official said that although relations might be sour "for several years," Moscow expects them to improve eventually. He even held out the prospect for eventual rapprochement with President Sadat. Pyrlin said that Moscow's friends in Egypt are encouraging the Soviets to maintain their economic aid program to provide an opening for better political ties.

The Soviet ambassador in Cairo told US Ambassador Eilts on Monday that the USSR had no plans to withdraw Soviet "technical" advisers now in Egypt. Moscow, he added, was prepared to sign the trade agreement the two sides negotiated last year. He predicted this would probably take place in late April or early May.

Soviet public comments, on the other hand, are designed to promote Egyptian apprehensions about future Soviet actions and to raise doubts as to the wisdom of Sadat's actions. This theme originally appeared in Moscow's formal protest note to Cairo last week, and since then has received prominent play in the Soviet press.

Moscow media have refuted Egyptian charges that the USSR was niggardly with economic and military assistance, and have hit hard on the idea that Sadat's ill-conceived economic policies would eventually prove his undoing.

The USSR's protest prompted charges of Soviet meddling from the Egyptian press and public figures. In a gesture that received wide domestic publicity, Egyptian officials refused to accept the Soviet note.

This bravado notwithstanding, the failure by the Egyptians to publicize all of the specifics in Moscow's rebuttal suggests they are concerned that the Soviet attacks might fall on some receptive ears.

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THAILAND

The strong showing by the four major parties in Sunday's election may indicate a trend toward a less fragmented political system and increase the prospects for a more stable government.

The complete, but still unofficial, results of the election show that only four parties gained more than 10 seats. The previous parliament had nine parties with 10 or more seats.

The Democrat Party, by winning 115 seats, may be in a position to head a coalition. Speculation in Bangkok so far has centered on a coalition of the Democrats with the Social Justice Party or the Thai Nation party.

Only 140 votes are required to defeat a no-confidence motion, and, with 115 seats, the Democrats' leadership should be in a strong bargaining position in apportioning cabinet portfolios among rival personalities and parties. If factionalism does not become a problem within the Democrat Party, a coalition with any of the larger parties and one or two small ones should be much less vulnerable to defections than the outgoing coalition, which includes some 17 parties.

The election results show a clear swing away from the left. Leftist parties held 37 seats in the previous National Assembly, but on Sunday, the leftists were only able to elect six candidates. The swing reflects voter reaction against leftist-instigated unrest over the past year. It was also encouraged by a strong right-wing campaign of intimidation against leftist electioneers and army-backed measures to stack the odds in favor of conservatives.

Democrat Party leader Seni Parmot, the apparent choice to form a new government, has stated that he would not include any leftists in his coalition. This should please the military, which was concerned that leftists would be allowed in Khukrit's coalition. The military will likely be more disposed to accept a coalition including either the Social Justice Party or the Thai Nation Party, both of which enjoy strong military backing.

Whatever its precise structure, the new government probably will be more pro-Western than its predecessor and will place greater value on relations between Thailand and the US. The new government may also be more determined to eliminate dissident activity and internal unrest and violence.

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CHINA

Chinese radicals during the past month have broadened their offensive against policies associated with Vice Premier Teng Hsiao-ping by attacking his program for modernizing the military, although thus far no changes are observable. The radicals have generally confined their attacks on military policy to wall posters, avoiding press discussion of this sensitive matter.

At issue is Central Directive 18 which was approved last summer and calls for greater efforts to upgrade China's conventional forces. The posters charge that the directive overemphasizes military proficiency and that Teng sought to reduce the political influence of important military figures in the provinces.

Indeed, Teng worked hard over the past three years to remove the military from civilian politics and to curb their political power generally. These posters are evidently a radical attempt to capitalize on the military's disaffection.

In addition to rotating regional and district commanders from their bases of power and replacing them with civilians, Teng "rehabilitated" and promoted to important positions in Peking a number of military men whose long advocacy of rapid modernization of China's military establishment and arsenal had in many cases led to their purge early in the Cultural Revolution—at the very time that regional and local officers were beginning to assume great administrative and political responsibilities. The regional commanders could have seen this rehabilitation as a threat to their influence within the army.

Posters criticizing Teng for claiming the army was ill-prepared for combat seem designed to exploit any latent resentment against Teng for pursuing such tactics. In fact, the charge that Teng overemphasized military proficiency calls into question important aspects of Directive 18.

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On the other hand, plans are moving ahead to convene a national conference on defense industries in the near future. These plans were set in motion in late February, suggesting that military priorities relating to modernization have not yet changed appreciably. In fact, local and regional commanders almost certainly would be pleased to see their weapons arsenal upgraded and expanded—if this was not accompanied by a drastic reduction in their political clout.

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Aside from the modernization issue, there have been wall poster attacks on other aspects of Teng's policies toward the military. One of the most significant charges is that Teng monopolized control of the army. This seems to be an attempt to win over those who opposed his appointment as army chief of staff, the first civilian ever named to this post.

Although the evidence is sparse, the criticisms thus far do not seem to have had much impact. Important military figures, particularly in the provinces, have shown little enthusiasm for the campaign against Teng. Most of the officer corps favor Teng's efforts to upgrade the army's fighting capability. Others may not be completely satisfied with Teng, but in the long run are likely to find a less agreeable alternative in the radicals. As for those army officers whose sympathies lie with the radicals, their views probably paralleled the wall poster criticism, but they otherwise still seem to be keeping their heads down.

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CYPRUS-GREECE

A crowd of about 4,000 Greek Cypriots marched on the US embassy in Nicosia on April 6 to protest the signing of the US-Turkish Defense Cooperation Agreement.

Most of the demonstrators remained behind police barricades, but a group of about 600 stoned the embassy. Despite stepped-up police protection, a handful of demonstrators entered the embassy grounds and replaced the US flag with Greek and Cypriot flags.

The Cypriot government had hoped to prevent any violence. The Cypriot police, who used barricades and tear gas, had firm orders that the embassy was to be protected. Cypriot National Guard officers were ordered to assist the police if necessary.

Opposition to the defense agreement is growing among the Greek military. In addition to the government's suspension of base negotiations with the US, Athens has withdrawn from a scheduled joint naval exercise. The Greek navy has also refused to approve visits of US naval ships to Greek ports. It is not clear, however, how long the prohibition will last, and at least one exception has already been made. In addition, the Greek ambassador to NATO reportedly has said that the defense agreement will not affect Greece's upcoming negotiations with NATO, but indicated that the US base negotiations will be seriously affected.

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ARGENTINA

The austerity program outlined last Friday by Argentina's new civilian economics minister is a comprehensive package of tough measures designed to slow galloping inflation, curb widespread illegal economic activities, and provide investment incentives. It promises radical fiscal reform—including sharp cuts in government employment and efficient operation of state enterprises—and stresses production, profits, and an increased role for private enterprise. The program includes steps to revive the agricultural sector and to promote exports.

Although less explicit about foreign relations than about the domestic economy, the minister outlined plans to repeal the restrictive foreign investment law of 1973 that has kept foreign capital from entering Argentina. Plans also call for an early settlement of outstanding nationalization cases involving mainly US companies, and an approach to international monetary authorities for aid in covering the country's estimated \$1.4-billion foreign exchange gap as soon as the government can show actual economic progress.

One aspect of the domestic program may lead to an early showdown with labor. A decree signed Friday terminates the present price controls and permits businessmen to raise prices to profitable levels in order to encourage investments, which have been stagnating. A similar lifting of price controls last July caused prices to skyrocket. Labor demanded and got massive wage hikes, fanning the inflation and torpedoing the government's stabilization effort.

Because the military government has reserved the right to determine wage increases, it can break the price-wage spiral. If labor resentment is strong enough to require severe government repression, however, an important element in the recovery program—rapidly increased production—will be undermined and the recovery rate greatly slowed.

The new military government's success in reversing the economic decline of the last several months will depend largely on maintaining the tacit cooperation it has had from most of the population since assuming power on March 24. Unless improvement is clearcut and rapid, cooperation could fade quickly, forcing the government to take more repressive measures. With dictatorial powers, government leaders will be able, at least for a time, to enforce programs even against considerable opposition, but it will be unable to guarantee success.

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